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FISCAL IMPACT STATEMENT

LS 6962 **NOTE PREPARED:** Apr 30, 2013
BILL NUMBER: SB 517 **BILL AMENDED:** Apr 26, 2013

SUBJECT: Local Government Finance.

FIRST AUTHOR: Sen. Miller Pete **BILL STATUS:** Enrolled
FIRST SPONSOR: Rep. Huston

FUNDS AFFECTED: X GENERAL **IMPACT:** State & Local
DEDICATED
FEDERAL

Summary of Legislation: *Debt Restructuring*: This bill specifies that an eligible school corporation may adopt a resolution before January 1, 2014, to use certain debt restructuring statutes.

Outdoor Signs: The bill extends the assessment schedule for outdoor advertising through the 2016 assessment date.

Leased Property: This bill provides that real property leased wholly or in part to a state agency is exempt to the extent that the real property is leased to the state agency from property taxes if the lease requires the state agency to reimburse the owner for property taxes.

INDOT Signs: The bill provides a property tax exemption for signs manufactured for the Indiana Department of Transportation (INDOT) to comply with federal highway funding requirements under federal law.

Sales Assessment Ratio Studies: This bill creates a five year pilot program to require the Department of Local Government Finance (DLGF) to review and analyze certain improved residential property data submitted for North Township in Lake County and for Center, Wayne, and Washington townships in Marion County. It requires the DLGF to separate the parcels in these townships into four comparable groups and separately review and analyze data for each of the four groups and to prepare a coefficient of dispersion study and a property sales assessment ratio study for each group.

It also requires the DLGF to annually (instead of biennially) review each coefficient of dispersion study for each township and county and annually (instead of quadrennially) review each sales assessment ratio study for each township and county.

Failure to Appear Penalty: The bill provides that the $50 penalty that may be imposed against a taxpayer in certain property tax appeal circumstances may not be added as an amount owed on the property tax statement.

Budget Review Pilot Project: This bill authorizes the DLGF to establish a three year pilot program concerning nonbinding review of budgets, property tax rates, and property tax levies. It provides that for a county to be eligible for designation as a pilot county, the county fiscal body must adopt a resolution and submit an application to the DLGF.

The bill allows the DLGF to designate not more than three counties as pilot counties. It specifies that the following apply in 2014 and thereafter in a pilot county:

(1) Each taxing unit in the pilot county must file with the DLGF the taxing unit's proposed budgets, property tax rates, and property tax levies.
(2) When formulating the taxing unit's estimated budget, property tax rate, and property tax levy, each taxing unit shall consider estimated consequences of the circuit breaker property tax credits.
(3) The DLGF shall prepare an analysis of the proposed budgets, property tax rates, and property tax levies submitted by taxing units in the pilot county and provide the analysis to the county fiscal body and to the fiscal body of each taxing unit in the pilot county.
(4) Upon request by the county fiscal body, representatives of the DLGF shall appear before the county fiscal body to review the analysis.
(5) The county fiscal body shall review the proposed budgets, property tax rates, and property tax levies of each taxing unit in the pilot county and the total tax rate of each taxing district in the county, and shall issue a nonbinding recommendation to each taxing unit.

Local Budget Review: This bill provides that if the majority of the individuals serving on a governing body of a taxing unit are not elected officials and the assessed valuation of the taxing unit is not entirely contained within a city or town but the majority of the individuals serving on the governing body are appointed by the city or town, the governing body shall submit its proposed budget and property tax levy to the city or town fiscal body rather than the county fiscal body.

Referendum Levies in TIF Areas: The bill provides for a school corporation whose voters adopted a referendum after November 1, 2009, and before May 1, 2010, that the property tax revenue from the referendum is to be distributed to the school corporation instead of the redevelopment commission having taxable property within the school corporation (applies to revenue received after 2013).

Homestead Circuit Breaker Eligibility: This bill specifies that a homestead is eligible for the 1% circuit breaker cap if the homestead has actually been granted a standard deduction.

Circuit Breaker Allocation: The bill specifies, for purposes of protecting debt service funds under the property tax circuit breaker credit, that the political subdivision may determine the allocation of property tax reductions from the circuit breaker credit to funds receiving only unprotected taxes using only the funds of the political subdivision that incurred the debt and not other political subdivisions. It specifies that the allocation is to be made using only the taxing districts for which there was an impact from granting the circuit breaker credit.

The bill also specifies that the revenue for a fund receiving protected taxes is also reduced if the revenue reallocation from funds receiving only unprotected taxes is insufficient to offset the amount of the circuit breaker. It permits a political subdivision to transfer money to meet debt service obligations from any other available source if a fund receiving protected taxes also has to be reduced. The bill limits the amount of the transfer to the shortfall, and requires that the transfer must be specifically identified as a debt service obligation transfer for each affected fund.

Additionally, the bill permits losses to be allocated proportionately among protected and unprotected taxes in 2013.

School General Fund Transfers: The bill permits a school corporation to make a transfer from its general fund to its transportation fund or school bus replacement fund if more than 75% of its transportation fund levy or bus replacement fund levy is lost due to: (1) the application of the circuit breaker credit; plus (2) the tax allocations made to protect taxes that are protected from the circuit breaker credit. It limits the general fund transfer to 50% of the revenue lost by the impacted fund.

Penalties for Ineligible Standard Deductions: This bill provides that if a county auditor in a county other than Marion County determines that property is not eligible for the standard deduction and the property taxes, interest, and penalties are collected within 30 days after a notice is issued to the taxpayer, the amount of the increased property taxes, interest, and penalties deposited in the county auditor's nonreverting fund may not exceed $100,000 per year, and any amount exceeding $100,000 must be deposited in the county general fund.

Airport Authorities: The bill permits an airport authority to transfer up to 5% of its budget each year to its cumulative building fund.

Solid Waste Management Districts: This bill changes the deadline for solid waste management districts to submit certain information to the DLGF from February 1 to March 1.

Distressed Schools: The bill provides that in the case of a school corporation designated after June 30, 2013, as distressed by the Distressed Unit Appeal Board (DUAB) upon submission of a petition by the school corporation requesting the designation, the DUAB shall appoint an emergency manager for the school corporation. (Under current law, the DUAB is required to appoint an emergency manager for each political subdivision, other than a school corporation, that is designated as distressed.) It also allows the DUAB to approve a petition submitted jointly by the governing body and the superintendent of a school corporation requesting authority to transfer before July 1, 2015, excess funds in the school corporation's debt service fund to the school corporation's transportation fund.

Real Property Exchange: This bill allows a school corporation in LaPorte County to exchange real property for services provided by another governmental agency.

Study of Local Budget Process: The bill urges the Legislative Council to assign to an interim study committee the study of the budgeting process for political subdivisions.

Levy Adjustments: This bill allows various taxing units to adjust levies and borrow money to offset a levy reduction.

Property Tax Exemptions: The bill authorizes a taxpayer to claim a property tax exemption for the March 1, 2009, assessment date for property leased to the Bureau of Motor Vehicles (BMV) or Bureau of Motor Vehicles Commission (BMVC).

This bill also forgives property taxes, penalties, or interest for various properties owned by nonprofit organizations.

Effective Date: Upon Passage; January 1, 2007 (Retroactive); January 1, 2009 (Retroactive); January 1, 2011 (Retroactive); January 1, 2013 (Retroactive); July 1, 2013; January 1, 2014.

Explanation of State Expenditures: *Leased Property*: Under this provision, state expenses for rent on leased property would be reduced. In a case where the state leases only a portion of a parcel, the exemption would be based on the assessed value of the portion of the parcel occupied by the state. The total amount of state leases and the portion of rent that is property tax reimbursement are not currently known.

Background: The state Department of Administration (DOA) currently leases 2.3 million square feet of space at an annual rent of $31.5 M. The property tax component of this rent is not known. Additionally, the Bureau of Motor Vehicles has 137 leases with an estimated annual rent of $6 M. These leases do not include property leased by quasi-state agencies.

Sales Assessment Ratio Studies: The DLGF currently reviews sales assessment ratio studies in each county and township. For North Township in Lake County and for Center, Washington, and Wayne Townships in Marion County, this bill would require the DLGF to further divide the parcels in each township into four groups and analyze the sales assessment ratio studies at that level. This provision would apply to studies submitted to the DLGF in 2013 through 2017. The DLGF should be able to complete the additional analysis with current resources.

Budget Review Pilot Project: Under this provision, the DLGF would develop the framework for continuation of a more thorough review in all counties without the DLGF's direct involvement. The DLGF would initially have to commit additional resources to the counties that it chooses to be a part of the pilot project and for the development of the framework in general. The additional cost to the DLGF is currently unknown.

Study of Local Budget Process: This bill urges the Legislative Council to assign the study of the local budget process to a study committee. If a committee were to hold additional meetings to address this topic, there would be additional expenditures for legislator per diem and travel reimbursement for the committee members. Any additional expenditures must be within the committee's budget, which is established by the Legislative Council.

Explanation of State Revenues:

Explanation of Local Expenditures: *Failure to Appear Penalty*: Under current law, a $50 penalty is assessed against a property taxpayer who appeals an assessment or deduction if a request for continuance, a request for the PTABOA to take action without the taxpayer being present, or a withdrawal is not timely filed and the taxpayer or representative fails to appear at the hearing. Under this bill, the penalty may not be added to the tax bill. The county's cost to collect the penalty could increase under this provision.

School General Fund Transfers: Beginning in CY 2014 under this bill, circuit breaker losses are to be allocated only to unprotected levies. (See *Circuit Breaker Allocations* in Local Revenues.)

Under this provision, school corporations that have circuit breaker losses exceeding 75% of their transportation and bus replacement funds would be permitted to transfer funds from the school general fund into these two funds in an amount up to 50% of the loss.

Based on 2013 circuit breaker losses, there are seven school corporations that would have had circuit breaker losses exceeding 75% of their transportation and bus replacement fund levies if circuit breaker losses were first directed to unprotected funds. The total loss in the transportation and bus replacement funds for all seven school corporations would have been $15.8 M. The maximum transfer would be about $7.9 M per year.

The following table illustrates the 2013 circuit breaker losses and potential transfers for each affected school corporation and fund if the 2014 circuit breaker allocation formula had been in effect for 2013.

Corp	School Corporation	Fund	Levy	Circuit Breaker	% Levy Lost	Potential Transfer
5310	Franklin Township Community	Transportation	4,178,629	4,178,629	100.0%	2,089,315
5310	Franklin Township Community	Bus Replacement	709,193	709,193	100.0%	354,597
5380	Beech Grove City Schools	Transportation	799,483	799,483	100.0%	399,742
5380	Beech Grove City Schools	Bus Replacement	110,880	110,880	100.0%	55,440
6340	Cannelton City Schools	Transportation	29,996	29,996	100.0%	14,998
6340	Cannelton City Schools	Bus Replacement	16,705	16,705	100.0%	8,353
5300	M.S.D. Decatur Township Schools	Transportation	2,426,396	2,234,834	92.1%	1,117,417
5300	M.S.D. Decatur Township Schools	Bus Replacement	474,614	437,144	92.1%	218,572
3030	Westfield-Washington Schools	Transportation	3,471,021	3,170,127	91.3%	1,585,064
3030	Westfield-Washington Schools	Bus Replacement	161,399	147,408	91.3%	73,704
1970	Muncie Community Schools	Transportation	3,782,107	3,352,432	88.6%	1,676,216
1970	Muncie Community Schools	Bus Replacement	56,054	49,686	88.6%	24,843
5280	Elwood Community Schools	Transportation	507,822	444,044	87.4%	222,022
5280	Elwood Community Schools	Bus Replacement	141,448	123,683	87.4%	61,842
	Totals / Average %		**16,865,747**	**15,804,244**	**93.7%**	**7,902,122**

Airport Authorities: Under this provision, local airport authorities may transfer up to 5% of operating levies to the cumulative building fund. In CY 2013, ten airport authorities levied $11.2 M in their operating funds. At 5%, the maximum total transfer to cumulative funds would be $562,000. Six airport authorities were shown not to have an operating levy. The airport authorities and the possible transfers under this bill are shown in the following table.

2013 Airport Authority Operating Fund Levies			
County	Airport Authority	General Fund Levy	5% of GF Levy
Allen	Fort Wayne-Allen County Airport Authority	3,693,539	184,677
Cass	Logansport/Cass Co Airport Authority	400,559	20,028
Clinton	Frankfort Airport	0	0
DeKalb	DeKalb County Airport Authority	0	0
Delaware	Delaware Airport	399,970	19,999
Dubois	Dubois County Airport	95,852	4,793
Fulton	Fulton County Airport Authority	0	0
Jackson	Seymour Airport Authority	0	0
Lake	Gary Airport	1,413,901	70,695
LaPorte	LaPorte Municipal Airport Authority	0	0
Perry	Perry County Airport Authority	0	0
Porter	Porter Co Airport Authority	496,832	24,842
St. Joseph	St. Joseph Airport	2,278,332	113,917
Starke	Starke County Airport Authority	242,679	12,134
Vanderburgh	Evansville-Vanderburgh Airport Authority	966,672	48,334
Vigo	Hulman Field Airport	1,251,645	62,582
		11,239,981	**562,001**

Explanation of Local Revenues: *Debt Restructuring*: Under current law, school corporations must adopt a resolution by June 30, 2013 to be permitted to refinance debt under the debt restructuring statute. The DUAB must also approve the school corporation's refinancing plan. Under this bill, the deadline to adopt the resolution would be extended to December 31, 2013.

Background: Under current law, certain school corporations are permitted to transfer certain amounts from their debt service levies to their capital projects, transportation, and school bus replacement funds. Eligible school corporations include corporations that have circuit breaker losses from all funds that are at least 20% of the levies in the nondebt funds (i.e., capital projects, transportation, school bus replacement, and racial balance). Eligible schools may currently refinance up to 50% of their existing bonds for a period not exceeding 10 years past the original term. The difference between the old debt service levy and the levy for the refinanced bond (or 0 for a retired bond) is the incremental levy amount and may be transferred, up to the amount of the circuit breaker losses, to the other funds.

Outdoor Signs: Under this bill, the use of the current valuation schedule for outdoor signs would be extended by two years, through taxes payable in 2017.

The valuation schedule most likely results in a total sign valuation that is about 25% lower than the AV without schedule. Under current law, the assessed valuation of outdoor signs will rise beginning with taxes payable in 2016. The additional AV will reduce both tax rates and circuit breaker losses.

Under this proposal, the change in valuation would be delayed by two years. Compared with current law, the lower assessments for taxes payable in 2016 and 2017 would cause higher property tax rates and could result in increased circuit breaker losses for local civil taxing units and school corporations.

Background: Prior to the 2011 Pay 2012 assessment year, outdoor advertising signs were assessed under a DLGF rule that set the value of each sign based on the type, size, and number of faces on the sign. The DLGF repealed that rule effective with taxes payable in 2012. Beginning with taxes payable in 2012, outdoor advertising signs were to have been valued in the same manner as most other depreciable personal property by listing the cost of the signs in the depreciation schedule in the personal property tax return. The cost to purchase an existing outdoor sign can vary greatly depending on location. In many cases the value under the current method is higher than under the previous rule.

HEA 1072-2012 established a valuation schedule to be used for taxes payable from CY 2012 through CY 2015. The new schedule sets the unit value per structure based on the type and size, but not the number of faces, of each sign. This value is used in lieu of the value arrived at by using the depreciation schedule in the personal property tax return.

For taxes payable in 2011 (under the previous rule), $7.7 M in assessed value was reported statewide by taxpayers who self-reported their principal business activity as display advertising. The tax due was estimated at $195,000. Before the enactment of HEA 1072-2012, $22.2 M in assessed value was reported for taxes payable in 2012 (without a rule or schedule) and the estimated tax due was $602,000. So, with no special rule in place, the tax due is estimated to be about 209% higher than it was under the old rule.

The total AV and taxes attributable to outdoor advertising signs are not known. The property tax returns for the taxpayers identified above may also contain property other than outdoor advertising signs, so the above estimates for these taxpayers may be high. However, the full universe of outdoor advertising signs is not known. If a sign owner listed any other activity as their principal business activity, then the value of their signs would not be included in the estimates above. It is very likely that there are many outdoor advertising signs that are reported on property tax returns other than those identified here.

Leased Property and INDOT Signs: Under these provisions, an unknown amount of property would become exempt from property taxation. Property leased by the state and highway signs not owned by the state would be exempt from property tax under this bill. The exemptions would result in higher tax rates in the areas where the exempt property is located. The higher tax rates would shift property taxes to other taxpayers and would also increase revenue losses from the circuit breaker caps.

Budget Review Pilot Project: A county fiscal body may apply to the DLGF to become one of three pilot counties under this provision. A more thorough review of local budgets by the county fiscal body could create better understanding of the interrelationship between the taxing units regarding property tax circuit breakers. Since the review is nonbinding, just as it is under current law, any change to a taxing unit's budget, levy, and tax rate would up to the officers of each taxing unit.

Cumulative Funds: The increases to cumulative fund tax rates and levies unit under this bill would increase total tax rates and could affect circuit breaker losses for intersecting taxing units.

Cumulative Funds - Zionsville: Under this provision, the DLGF would be required to establish a cumulative fire building fund for the town of Zionsville upon the town's request. For taxes payable in 2013, Zionsville's certified net assessed value was $1.884 B. The maximum tax rate for the fund would be $0.0033 per $100 of AV. The estimated levy at the maximum rate would be about $62,200. The fund could be established for taxes payable as early as CY 2014.

In addition, this bill would increase Zionsville's maximum levy for 2014 by the amount of the actual 2012 property tax levy for the fire territory's equipment replacement fund. The amount of the increase would be $446,815.

Cumulative Funds - Frankfort Airport: Under this provision, the maximum tax rate for the Frankfort Airport Authority cumulative fire fund would be increased to $0.0067 per $100 AV. For taxes payable in 2013, the airport authority imposed a $0.0032 tax rate in the cumulative fund which produced a $45,390 levy on a certified net AV of $1.42 B. The estimated levy at the $0.0067 rate would be about $95,035, or an increase of $49,465. The increase would first affect taxes payable in CY 2014. Tax bills for all taxpayers in the Frankfort Airport territory would increase unless a taxpayer's bill is already at the cap.

Cumulative Funds - Vincennes Community Schools: This bill specifies the rate to use in the first step of the calculation of the maximum property tax rate for the capital projects fund (CPF) of the Vincennes Community School Corporation. Under this provision, the Vincennes Schools' 2014 CPF tax rate would be increased by about $0.0430 per $100 AV. Using the school's 2013 AV as an estimate, the CPF levy could rise by about $304,800 in 2014. The increase would first affect taxes payable in CY 2014 and would be the basis for CPF tax rates going forward. Tax bills for all taxpayers in the Vincennes Community School District would increase unless a taxpayer's bill is already at the cap.

Town of Goodland: This bill allows the town of Goodland to borrow money to offset a levy reduction resulting from the improper submission of its budget and levy information to the DLGF. This provision would allow the town of Goodland to borrow in 2013, the difference between its maximum permissive levy and the actual certified levy, or about $32,600. The DLGF would calculate the actual amount allowed. The town would impose a debt service levy in 2014 to pay off the loan.

The additional levy in 2014 would cause an increase in the 2014 tax rate. Property tax bills would rise for taxpayers who have not yet reached their tax cap. Circuit breaker losses would increase for taxing units that intersect with Goodland.

Fire Protection Levies: Under HEA 1072-2012, Barkley Township and Union Township, both in Jasper County, could receive an increase in their firefighting maximum levies beginning in 2013 if they petitioned the DLGF. Barkley Township's increase was limited to $12,247, and Union Township's increase was limited to $14,557. Under this bill, the actions taken by the DLGF with regard to these petitions would be legalized.

Mishawaka School Budgets: This provision would restore Mishawaka City School Corporation's 2013 budget appropriations to the amounts advertised by the school corporation, an increase from the amounts certified by the DLGF. The advertised (and locally adopted) budgets for all funds totaled $47,077,499. The DLGF certified $43,980,507. This bill would increase the total budget by $3,096,992 for 2013.

The bill requires the DLGF to calculate and certify the property tax levy that could have been imposed for 2013 if the budget had been fully funded. The School City of Mishawaka would be permitted to borrow in 2013, the difference between the recalculated levy and the actual certified levy, or about $3.1 M. Mishawaka Schools would impose a debt service levy in 2014 to pay the off loan.

The additional levy in 2014 would cause an increase in the 2014 tax rate. Property tax bills would rise for taxpayers who have not yet reached their tax cap. Circuit breaker losses would increase for taxing units that intersect with Mishawaka Schools.

Union-Lakeville Fire Protection Territory: This provision would increase the 2014 maximum levy for the Union-Lakeville Fire Protection Territory in St. Joseph County by $44,281 to 70% of the 2006 maximum levy amount.

The 2013 maximum levy was $83,621. With annual growth, the 2014 maximum levy is estimated at $85,712. The 2006 levy was $185,704. The new 2014 maximum levy would be $129,993, or $44,281 higher than the estimated 2014 maximum levy under current law.

The new 2014 maximum levy would be the basis for future years' levies. The increased levies would cause an increase in the property tax rate. The increased rate would result in higher property tax bills for all taxpayers in the territory who are under the property tax cap. Circuit breaker losses could increase for taxing units that intersect with the fire territory.

Town of Williams Creek: This provision allows the Town of Williams Creek to borrow money to offset a levy reduction resulting from the improper advertising of its budget and levy. This provision would allow the Town of Williams Creek to borrow in 2013, the difference between its maximum permissive levy and the actual certified levy, or $81,421. The DLGF would calculate the actual amount allowed. The town would impose a debt service levy in 2014 to pay the off loan.

The additional levy in 2014 would cause an increase in the 2014 tax rate. Property tax bills would rise for taxpayers who have not yet reached their tax cap. Circuit breaker losses would increase for taxing units that intersect with Williams Creek.

City of Lawrence: This provision allows the City of Lawrence to appeal to the DLGF to recoup a shortfall experienced in 2013. If approved, the city's levy would be increased one time, in 2014, in excess of its maximum levy. The levy increase could not exceed $250,000. According to available levy data, the City of Lawrence levy was $245,335 below the maximum levy in 2013.

The additional levy in 2014 would cause an increase in the 2014 tax rate. Property tax bills would rise for taxpayers who have not yet reached their tax cap. Circuit breaker losses would increase for taxing units that intersect with Lawrence.

Davis Township: This provision allows Davis Township in Fountain County to petition the DLGF for an increase in its township fire maximum levy beginning in 2014. The increase would equal the lesser of (1) the amount requested or (2) the amount needed to increase the maximum levy to the 2003 level. The 2003 maximum levy was $4,599 and the 2013 maximum levy was $6,207. Since the current maximum levy is already higher than the 2003 maximum levy, no increase would be available.

Referendum Levies in TIF Areas: Under current law, many building projects initiated by school corporations and local civil taxing units are subject to a public referendum. In addition, school corporations may seek additional property taxes for operating purposes through a referendum. All property tax levies imposed after being approved in a referendum are exempt from the circuit breaker caps.

Also under current law, the taxes paid on assessed valuation (AV) that exceeds the base AV in a TIF area is allocated to the redevelopment commission and is not distributed to local civil taxing units and school corporations. If the taxes to be paid on the allocated AV will exceed the amount needed by the commission for necessary expenses, then the commission must currently reallocate the excess AV back to the taxing units and schools.

Currently, in the case of a referendum passed after April 30, 2010, the taxes generated by a referendum tax rate in a TIF area are paid directly to the civil taxing unit or school corporation that passed the referendum and not to the redevelopment commission.

However, in the case of a referendum passed before May 1, 2010, the referendum tax rate is treated like all other tax rates in a TIF area. So, the referendum taxes paid on the TIF AV are allocated to the redevelopment commission. If the commission finds that the allocated taxes with the referendum levy exceed necessary expenses, then the commission must reallocate AV back to the taxing units and schools. This reallocation has the effect of lowering the tax rate for all taxing units including the school corporation and increasing the levy generated in rate-controlled cumulative funds for those units.

This bill would affect taxes payable due to referenda passed after November 1, 2009, and before May, 2010, and it would be effective beginning with taxes payable in 2014. Under this bill, the taxes generated by a referendum tax rate in a TIF area would be paid directly to the civil taxing unit or school corporation that passed the referendum and not to the redevelopment commission. TIF proceeds would be maintained at their pre-referendum amounts. Reallocations of AV caused by excess taxes due to referenda would be eliminated (although reallocations may still occur for other reasons).

According to the DLGF, three school corporations, Beech Grove, Hamilton Southeastern, and Southern Wells, passed referenda between November 1, 2009, and May 2010. Two of these three school corporations, Beech Grove and Hamilton Southeastern, currently have a TIF area in their territory.

Beginning with taxes payable in 2014, these school corporations would receive the full benefit from the referendum tax levy even though a TIF district is present. The effect on the referendum unit would be either higher referendum income or the opportunity to reduce the referendum tax rate.

Homestead Circuit Breaker Eligibility: The number of properties eligible for the 1% tax cap could be reduced under this bill. The higher property tax cap could potentially increase revenues for taxing units where the property is located. The number of properties affected is thought to be very small.

Background: Under current law, to qualify for the 1% property tax cap, a property must be *eligible* for the standard deduction. Under this bill, only properties that have *actually received* the standard deduction would be eligible for the 1% property tax cap. Nonhomestead residential properties have a 2% tax cap.

If an eligible taxpayer has not filed for the standard deduction, then the county auditor has no way to determine that a property is eligible for the 1% tax cap. In some cases, taxpayers have contacted the county auditor after receiving a tax bill. In those cases, the county auditor is able to apply the 1% cap retroactively and correct the tax bill. However, because these taxpayers have not received the standard and supplemental standard deductions, the tax due before the application of the cap is significantly higher than if the taxpayer had received those deductions. As a result, the revenue loss under the cap is larger.

Currently, a taxpayer who is eligible for the standard deduction may file for the deduction as late as January 5th of the year in which property taxes are due.

Circuit Breaker Allocation: For 2013 allocations, this bill changes the allocation of circuit breaker credits within a taxing unit so that all funds of the taxing unit share proportionately in the revenue reduction. Total unit revenues are not affected.

After 2013, this provision would require taxing units to allocate circuit breaker losses only to unprotected funds to the extent possible. If the total circuit breaker loss exhausts the levies in all of a taxing unit's unprotected funds, the excess would then be allocated to the protected funds. The bill also permits taxing units to transfer money from its nondebt funds into the debt service fund to replace the revenue that the debt service fund would have received if not for the circuit breaker allocation.

<u>Background</u>: Currently, certain levies are exempt from the calculation of property tax limits under the circuit breaker law. These include levies that are approved in a referendum and levies in Lake and St. Joseph Counties for debt incurred before July 1, 2008. Under current law, when a taxing unit distributes tax receipts among its funds, the total amount collected from exempted funds must be allocated to those funds without any adjustment for circuit breaker credits.

Beginning in CY 2013 under HEA 1072 (2012) both the exempt levies plus any debt service levies that are not exempt are deemed "protected taxes". The total amount of protected taxes collected are to be allocated to the appropriate fund without any adjustment for circuit breaker credits. The tax loss created by the circuit breaker credits is to be allocated among the unprotected funds.

Penalties for Ineligible Standard Deductions: In counties other Marion, this provision would limit the amount of back taxes and penalties from ineligible standard deductions retained by the county auditor to $100,000 per year per county after allowing for the direct costs incurred to identify eligibility. After meeting costs, amounts collected over $100,000 would be deposited into the county general fund. This provision could reduce county auditor revenue and increase county general fund revenue in a county if that county has a large number of improper standard deductions in any one year.

<u>Background</u>: Currently, a taxpayer must notify the county auditor within 60 days of any change in the use of homestead property that renders all or part of the property ineligible for the standard deduction. Failure to make the notification results in a liability for the taxes that would have been due on the property without the deductions and associated credits plus a penalty equal to 10% of the additional tax. One percent of the penalty is transferred to the DLGF.

Each county auditor maintains a non-reverting fund for deposit of delinquent taxes, penalties, and interest collected from taxpayers who received the standard deduction and associated benefits but were found to be ineligible. Money in the fund may only be used, as appropriated by the county fiscal body, by the county auditor to cover fees and costs incurred in the discovery of improper standard deductions and homestead credits, for other expenses of the auditor's office, and for the costs of processing the homestead verification forms mailed to taxpayers in 2010, 2011, and 2012. These funds may not be considered in setting the auditor's budget or the county's tax levy.

Property Tax Exemption: Under this provision, property owners in Marion County that leased property to the BMV or BMVC on March 1, 2009, may before September 1, 2013, file for an exemption of property taxes payable in 2010. If the property is eligible for the exemption, the 2010 tax bill would be cancelled. Amounts not paid would not be due and amounts already paid would be refunded. Property tax refunds reduce current year tax revenues for affected taxing units.

One location has been identified with a 2010 property tax bill of $6,206.50. However, there are currently nine BMV branches in Marion County.

Exempt Property - Church: Under this provision, owners of certain real property would receive an exemption from property tax for taxes payable in 2008 and 2009 if:

(1) The owner purchased the real property in June 2007, and has used the property for church purposes since that time;
(2) The owner filed a property tax exemption application for the property in June 2007; and
(3) The owner files an exemption application before September 1, 2013.

Under this provision, the exemption would apply retroactively and the 2008 and 2009 tax bills along with all penalties and interest would be cancelled.

One taxpayer, in St. Joseph County, has been identified as qualifying for an exemption under this provision. The taxes billed for 2008 and 2009 total approximately $49,000. For 2008 and 2009, the local taxing units and school corporation located in the affected taxing district would forego receipt of their share of the amount due.

Exempt Property - Marion County: Under this provision, owners of real and personal property located in Marion County would receive an exemption from property tax for taxes payable in 2012 and 2013 if:

(1) The owner owns multiple parcels of real property in Marion County that are used for educational, literary, scientific, religious, or charitable purposes;
(2) The owner would have qualified for the exemption if it had been timely filed; and
(3) The owner files an exemption application before September 1, 2013.

Under this provision, the exemption would apply retroactively and the 2012 tax bill would be cancelled. One taxpayer has been identified as qualifying for an exemption under this provision. The taxes billed for 2012 amount to approximately $59,535. The local taxing units and school corporation located in the affected taxing district would forego receipt of their share of the amount due for 2012 and 2013.

Exempt Property - Ministry: Under this provision, owners of real property located in Marion County would receive an exemption from property tax for taxes payable in 2012 and 2013 if:

(1) The owner is exempt from federal income taxes;
(2) The owner owns a vacant parcel of real property in Marion County that is used for educational, literary, scientific, religious, or charitable purposes;
(3) The owner acquired the eligible property after the 2012 assessment date and redeemed the eligible property after it was sold for delinquent taxes in 2012;
(4)The owner would have qualified for the exemption in 2012 and 2013 if it had been timely filed; and
(5) The owner files an exemption application before September 1, 2013.

Under this provision, the tax bills for 2012 and 2013 would be cancelled. The ministry would also be entitled to a refund for any back taxes, penalties, and interest paid with respect to the eligible property, or for any amount paid to redeem the eligible property.

One taxpayer has been identified as qualifying for an exemption under this provision. The amount paid to redeem the property in 2012 is estimated at approximately $9,161.The tax bill for 2013 is estimated at approximately $4,128. For 2012, and 2013, if applicable, the local taxing units and school corporation located in the affected taxing district would forego receipt of their share of the amount due.

Exempt Property - Grant County: Under this provision, the owners of certain real property would receive an exemption from property tax for taxes payable in 2013 and 2014 if:

(1) The property is a historic landmark in Grant County;
(2) The owner is exempt from federal income taxes;
(3) The owner purchased the property after March 1, 2011; and
(4) The owner files an exemption application before September 1, 2013.

Under this provision, the exemption would apply retroactively to taxes payable in 2013 and prospectively to the 2014 tax bill.

One taxpayer has been identified as qualifying for an exemption under this provision. The total taxes billed for 2013 were $2,988.06. The local taxing units and school corporation located in the affected taxing district would forego receipt of their share of the amount due. For taxes payable in 2014, the exemption would remove the property's assessment from the tax base. The tax rate would increase and the taxes would be shifted from the property receiving the exemption to all other taxpayers.

State Agencies Affected: Department of Local Government Finance; Department of Administration; Bureau of Motor Vehicles;

Local Agencies Affected: Counties; County fiscal bodies; County auditors; Airport Authorities; Local civil taxing units and school corporations; Town of Goodland; Town of Zionsville; Barkley and Union Townships in Jasper County; Frankfort Airport; Union-Lakeville Fire Protection Territory; School City of Mishawaka; Vincennes Community Schools; Beech Grove Schools; Hamilton Southeastern Schools; City of Lawrence; Town of Williams Creek.

Information Sources: LSA Property Tax Database; Local Government Database; Steve Harless, Department of Administration, 317-234-4724;

Fiscal Analyst: Bob Sigalow, 317-232-9859.